

## Message Text

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PAGE 01 STATE 064746

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FRB-03 H-02 INR-07 INT-05 L-02 LAB-04 NSAE-00 NSC-05

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TAGS: ETRD, OECD, AS, UK

SUBJECT: CONSULTATIONS WITH AUSTRALIA AND UK IN TRADE  
COMMITTEE WORKING PARTY

REF: (A) STATE 055008 (B) OECD PARIS 6721

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PAGE 02 STATE 064746

1. AUSTRALIAN IMPORT RESTRICTIVE MEASURES: MISSIONS SHOULD MAKE A GENERAL STATEMENT ALONG THE LINES NOTED IN PARAGRAPHS 4 THROUGH 7 IN REF A AND IF APPROPRIATE SHOULD POSE THE FOLLOWING QUESTIONS TO THE AUSTRALIAN DEL:

A) WHEN AUSTRALIA RECENTLY DECIDED TO ADOPT A VARIETY OF IMPORT RESTRICTIVE MEASURES (INCLUDING THOSE ON TEXTILES, STEEL PRODUCTS, AUTOMOBILES AND TIRES) WHAT SPECIFIC CRITERIA WERE USED TO JUSTIFY EACH ACTION? HOW AND ON WHAT BASIS WAS THE SPECIFIC LEVEL OF PROTECTION DETERMINED?

B) WERE CONSULTATIONS SOUGHT BY AUSTRALIA WITH THOSE COUNTRIES AFFECTED BY THE AUSTRALIAN MEASURES?

C) AUSTRALIA RECENTLY STATED THAT THE THREAT OF UNEMPLOYMENT IN SOME INDUSTRIES WAS CAUSED BY LARGE INCREASES IN IMPORTS AND THIS WAS CONSIDERED AN IMPORTANT REASON FOR THE ADOPTION OF IMPORT RESTRICTIVE MEASURES. COULD AUSTRALIA BE MORE SPECIFIC ABOUT THE RELATIONSHIP OF UNEMPLOYMENT TO THE RECENT INCREASES IN IMPORTS? FOR INSTANCE, WHAT DOMESTIC PROCEDURES DOES AUSTRALIA HAVE FOR DETERMINING SUCH A RELATIONSHIP AND HOW WERE THESE APPLIED IN THESE CASES?

D) HAS THE AUSTRALIAN INDUSTRIES ASSISTANCE COMMISSION CONSIDERED RECOMMENDING MEANS OTHER THAN IMPORT RESTRICTIVE MEASURES SUCH AS ADJUSTMENT ASSISTANCE FOR INDUSTRIES AFFECTED BY RISING IMPORTS?

E) ARE THERE ANY CASES WHERE INCREASES IN UNEMPLOYMENT DID NOT OCCUR IN THOSE INDUSTRIES FOR WHICH IMPORT RESTRICTIVE MEASURES WERE ADOPTED, AND, IF SO, WHAT WAS THE RATIONALE FOR THE ADOPTION OF THESE MEASURES?

F) ARE THERE ANY PLANS OR STUDIES TO EXTEND IMPORT RESTRICTIVE MEASURES TO MORE PRODUCTS IN THE INDUSTRIES ALREADY PROTECTED OR TO PRODUCTS IN OTHER INDUSTRIES. IF SO, WHAT WOULD BE THE BASIS FOR SUCH ACTIONS?

G) AS A POSSIBLE ALTERNATIVE TO IMPORT RESTRICTIVE MEASURES HAS AUSTRALIA CONSIDERED THE USE OF DOMESTIC LIMITED OFFICIAL USE

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PAGE 03 STATE 064746

FISCAL AND MONETARY MEASURES TO ALLEVIATE PROBLEMS IN THIS AREA, SUCH AS EXCESS DOMESTIC SUPPLY IN SOME PRODUCTS? HAVE ANY DOMESTIC MEASURES BEEN TAKEN TOWARD THIS END?

H) SPECIFICALLY ON TEXTILES, AUSTRALIA NOTED DECLINING CONSUMER DEMAND IN SOME PRODUCTS ON WHICH IMPORT RESTRICTIVE MEASURES WERE ADOPTED. WERE ANY MEASURES

CONSIDERED TO STIMULATE CONSUMER DEMAND FOR THESE PRODUCTS?

I) AUSTRALIA HAS FREQUENTLY STATED THAT SOME OF THESE IMPORT RESTRICTIVE MEASURES WILL REMAIN IN EFFECT UNTIL THE AUSTRALIAN INDUSTRIES ASSISTANCE COMMISSION MAKES A DETERMINATION ABOUT THE LONGTERM NEEDS OF THE INDUSTRIES. WHAT WILL BE THE LONGTERM POLICY FRAMEWORK OF THIS COMMISSION AND WHAT CRITERIA WILL BE USED TO DETERMINE IF ANY INDUSTRY NEEDS LONGTERM PROTECTION? WHAT MEASURES WOULD BE USED TO IMPLEMENT LONGTERM PROTECTION? HOW WOULD THIS LONGTERM PROTECTION BE CONSISTENT WITH ARTICLE XIX OF THE GATT WHICH ENVISAGES THE USE OF TEMPORARY MEASURES?

J) WHAT RELATIONSHIP DOES AUSTRALIA SEE BETWEEN THE MEASURES IT HAS ADOPTED AND THE EFFORTS BY COUNTRIES (EVIDENCED) THROUGH THE OECD TRADE PLEDGE AND OTHER ACTIONS) 'O AVOID MEASURES WHICH AGGRAVATE THE INTERNATIONAL ECONOMIC SITUATION AND THE DOMESTIC ECONOMIC DIFFICULTIES OF OTHER COUNTRIES?

K) DOES AUSTRALIA HAVE ANY PLANS FOR THE EARLY REMOVAL OF THESE IMPORT RESTRICTIVE MEASURES?

2. WE RECOGNIZE THAT THESE ARE PROBING QUESTIONS AND THAT IT MAY BE DIFFICULT FOR THE AUST. DEL. TO ANSWER THEM FULLY AT THIS MEETING. US DEL MAY WISH TO SUGGEST, THEREFORE, THAT WP MEET AGAIN IN 1 TO 2 WEEKS AFTER AUSTRALIAN DEL HAS HAD A CHANCE TO CONSULT WITH CANBERRA IN ORDER TO DISCUSS THESE QUESTIONS IN GREATER DEPTH.

3. BRITISH COST OF PRODUCTION INSURANCE PLAN: MISSION MAY WISH TO DRAW UPON THE FOLLOWING IN ITS PRESENTATION: LIMITED OFFICIAL USE

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PAGE 04 STATE 064746

A. THE UNITED STATES WELCOMES THE OPPORTUNITY TO CONSULT WITH THE BRITISH GOVERNMENT CONCERNING THE PROPOSED COST OF PRODUCTION INSURANCE SYSTEM FOR CERTAIN CLASSES OF EXPORTS. A PRELIMINARY EXAMINATION OF THE PLAN LEADS US TO JUDGE THAT IT MAY WELL HAVE THE EFFECT OF SUBSIDIZING AND STIMULATING EXPORTS.

A GOVERNMENT EXPORT INSURANCE FACILITY MAY BE EXPECTED TO COVER ACCIDENTAL LOSSES SUCH AS MAY ARISE IN CONNECTION WITH POLITICAL, NON-CONVERTIBILITY, OR COMMERCIAL RISKS. BY AND LARGE, HOWEVER, AN INSURANCE SYSTEM SHOULD BE SELF-SUSTAINING, WITH PREMIUMS SET AT A LEVEL WITH THE RISK. GIVEN THE PRESENT INFLATIONARY EXPECTATIONS, IT SEEMS UNLIKELY THAT THE PROPOSED U.K.

SCHEME WILL BE SELF-SUSTAINING (SEE LONDON 02926, PARAS 2 AND 3, FOR U.K. TREASURY EVALUATION). THEREFORE, THE SCHEME WILL MOST PROBABLY RESULT IN SUBSIDIZATION OF EXPORTS. THE SUBSIDY MAY NOT MATERIALIZE IF INFLATION SHOULD SIGNIFICANTLY ABATE OVER THE MID-TERM. EVEN SO, HOWEVER, THE SCHEME WOULD HAVE A DISTORTING EFFECT ON TRADE BECAUSE IT WILL CURRENTLY ENABLE BRITISH EXPORTERS TO UNDERBID COMPETITORS, OR TO MAKE BIDS WITHOUT INSISTING ON AN INFLATION ESCALATOR CLAUSE IN THE CONTRACT.

FOR THESE REASONS, THE U.S. BELIEVES THAT THE U.K. SCHEME DOES NOT CONFORM TO THE TRADE PLEDGE. MOREOVER, THE INTRODUCTION OF THE SCHEME WOULD ENCOURAGE FURTHER PROLIFERATION OF SIMILAR MEASURES. SINCE SUCH MEASURES WOULD TEND TO CANCEL EACH OTHER, A SUBSIDY RACE DETRIMENTAL TO THE COLLECTIVE INTEREST OF OECD MEMBERS COULD ENSUE.

B. THERE ARE ASPECTS OF THE PLAN WHICH ARE NOT QUITE CLEAR: (1) EXACTLY WHAT PRODUCTS ARE ELIGIBLE FOR COVERAGE UNDER THE PLAN, AND WHAT COSTS ARE INSURED? WHAT PERCENTAGE OF BRITISH EXPORTS WILL BE ELIGIBLE? (2) HOW MUCH DOES HMG EXPECT TO COLLECT PER YEAR IN PREMIUMS? DOES HMG EXPECT PREMIUMS COLLECTED UNDER THE PLAN TO COMPLETELY SUPPORT PAYMENTS FROM IT? IF NOT, HOW WILL THE DEFICIT BE MADE UP? (3) WE UNDERSTAND THAT LIMITED OFFICIAL USE

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PAGE 05 STATE 064746

THE PREMIUM TO BE PAID FOR THE INSURANCE OFFERED UNDER THE PLAN WILL BE 1 PERCENT OF THE CONTRACT PRICE FOR THE DURATION OF THE CONTRACT. IF NOT, ARE THE PREMIUM AND COST INCREASES COVERED BY THE PLAN ON A YEARLY BASIS? (4) WE NOTE THAT EXPORTS TO THE EC ARE NOT ELIGIBLE FOR COVERAGE. WHY WERE THEY EXCEPTED? (FYI: THE EC COMMISSION INDICATED (IN THE CASE OF THE FRENCH INSURANCE PLAN) THAT SUCH SCHEMES VIOLATE ART. 92 OF THE TREATY OF ROME). ARE EXPORTS TO US ELIGIBLE? (5) WILL NOT PARTICIPATION IN THE PLAN ENCOURAGE AN ELIGIBLE EXPORTER TO OFFER AN ARTIFICIALLY LOW BID FOR A CONTRACT BECAUSE HE WILL BE LIKELY TO RECOVER A LARGE PORTION OF INFLATIONARY COST INCREASES THAT OTHER BIDDERS WILL HAVE TO FIGURE INTO THEIR BIDS? (6) HMG POINTS TO THE COMPETITIVE ADVANTAGE OTHER COUNTRIES HAVE OBTAINED WITH SIMILAR INSURANCE PLANS AS THE REASON FOR INSTITUTING ITS OWN. WHAT ARE THESE OTHER PLANS AND WHEN WERE THEY INSTITUTED?

4. MISSION SHOULD USE ITS JUDGMENT ON WHETHER AT END OF UK CONSULTATIONS IT WOULD BE DESIRABLE TO SCHEDULE FURTHER MEETING ON EXPORT INSURANCE PLAN. IN ANY CASE, WE WOULD WISH TO KEEP OPEN OPTION TO RETURN TO CONSIDERA-

TION OF SCHEME WHEN AND IF IT GOES INTO EFFECT AND DETAILS  
ARE CLEARER. IF APPROPRIATE, MISSION MAY WISH DURING  
CONSULTATION ON EXPORT INSURANCE SCHEME TO MAKE REFERENCE  
TO UK'S RECENT ANNOUNCEMENT OF TEXTILE IMPORT MONITORING  
SYSTEM THROUGH LICENSES. (SEE SEPTTEL TO LONDON, INFO  
OECD, FOR BACKGROUND ON THIS SUBJECT.) INGERSOLL

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## Message Attributes

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